

September 26, 2003

Honorable Mayor and Members
of the City Council
City of Lincoln Park
1355 Southfield Road
Lincoln Park, Michigan 48146

Dear Mayor and City Council Members:

We recently completed the audit of the financial statements of the City of Lincoln Park, Michigan for the year ended June 30, 2003. In addition to the audit report, we offer the following comments for your consideration.

Government Accounting Standards Board Statement 34

As previously communicated to you, Governmental Accounting Standards Board (GASB) Statement 34 is now here! You will notice a very different look to the financial statements. Preparing for this new reporting model has been a long and arduous process for the City's accounting department.

Although there are many differences with this new reporting model, the major additions are as follows:

- **Management Discussion and Analysis:** Management is now required to give an overview of the City's overall financial position and results of operations.
- **Government-wide Financial Statements:** These additional statements adjust the normal fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the City from a longer term perspective (i.e. are today's taxpayers paying for today's services?). These statements show capital and infrastructure assets, as well as long term debt as part of the City's financial picture.
- **Budget Comparison:** A financial statement reader will now be able to view not only the actual revenue and expenditures of the City as compared to the current budget, but also as compared to the original budget.

The GASB believes this new model will provide a more complete picture of the financial position of the City. We would be happy to schedule a time to provide a more detailed overview of this new reporting model so that you can obtain the greatest benefit from it.

Government Accounting Standards Board Statement 34 (Continued)

It is important to note that, although the implementation process has received the most attention, there are on-going aspects of GASB 34 that will continue for future year audits. With additional statements, reconciliation from fund-based to Government-wide reporting, infrastructure tracking and more being added to this new model, there is more preparation needed for the audit, as well as more audit procedures to apply. This increases the workload of both the City staff and the auditors.

Current State Financial Picture

As you are aware, the slowdown in the State's economy is now directly affecting the General Fund. State shared revenue accounts for approximately 25% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the State's fiscal years ending September 30, 2001, 2002 and 2003 are less than originally projected. The following table sets forth a history of your revenue sharing payments:

Year ended June 30	Constitutional	Statutory	Total
2001	\$2,596,000	\$3,976,000	\$6,572,000
2002	\$2,623,000	\$3,705,000	\$6,328,000
2003	\$2,666,000	\$3,367,000	\$6,033,000
2004 - estimated	\$2,690,000	\$3,102,000	\$5,792,000

A summary of the significant developments related to revenue sharing payments is as follows:

The previous Governor's original budget recommendation for fiscal year 2002/2003 was to keep total revenue sharing payments to cities, villages, townships, and counties frozen at the fiscal year 2001/2002 level. This recommendation included a reduction of approximately \$112 million from what the statutory formula would have otherwise allowed. As was well publicized, following the introduction of the previous Governor's fiscal year 2002/2003 budget there was an attempt in July 2002 to veto all statutory revenue sharing from the State's 2002-2003 budget. The attempt was not successful and the veto was overridden by the Michigan Legislature. However, in December 2002, revenue sharing was cut another \$53 million by an Executive Order of the previous Governor.

Current State Financial Picture (Continued)

Currently, the budget proposed for the State's 2003/2004 fiscal year included another reduction to state shared revenue of 3% from fiscal year 2002/2003 levels. This version of the budget was ultimately adopted by the Michigan Legislature. While the State's budget has been approved for their 2003/2004 fiscal year, it includes several very significant assumptions which may not be realized. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

Over the past several years, the City has made great progress in building a healthy fund balance. Fund balance is necessary due to uncertainty related to major revenue sources and increasing costs. For instance, the above discussion illustrates that the State economy is not showing signs of a quick recovery. The City is well positioned in the short-run to weather this downturn because of the fund balance that exists. We encourage management to make every effort to protect and maintain the level of fund balance. This will ensure the City's health for years to come.

Property Assessment Cap

Property taxes account for approximately 52 percent of total General Fund revenue. Property tax revenue is a function of the millage rates and the taxable value. As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

The increases in the taxable value of property for 1999, 2000 and 2003 were the lowest increases since the 1994 adoption of Proposal A. The 2002 inflation factor is being used for property taxes levied in the City's fiscal year ended June 30, 2003. Property taxes are the City's largest source of General Fund revenue. However, as indicated

Property Assessment Cap (Continued)

above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is involved in long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. If the City requires additional millage capacity for operations in the future, then a Headlee override vote would be necessary to levy the mills that are authorized in City Charter.

Retiree Health Care Funding

The Governmental Accounting Standards Board recently issued an exposure draft addressing the accounting for retiree health care. As you know, the promise to provide health care to retirees is very similar to the promise to provide an annual pension check. As a result, GASB is proposing changes that would result in the City having to have an actuarial valuation to define the liability and the liability would need to be disclosed in the financial statements. In addition, the City's funding status, or the progress it has made in accumulating assets to pay for this liability, would also be disclosed. Lastly, the City would be required to make an annual contribution equal to the amount that the actuary deems necessary to fund the liability over a 30 year period. As you know, the City of Lincoln Park has been setting funds aside for this liability. You currently have approximately \$2,680,000 in the Retirees' Health Benefit Fund. While this is a good start toward funding, you may find that the annual contribution will significantly increase as a result of the actuarial valuation. While this change is still in the draft phase, it is expected that it will be adopted in which case you will need to keep this in mind for long-range planning. These changes will be effective in 2008.

Pension System Funding

The Police and Fire Retirement System is currently about 101 percent funded from an actuarial standpoint. The Municipal Employee's Retirement System is about 70 percent funded. In determining the funding progress, the actuary uses a smoothing methodology for valuing assets. As such, the market value losses experienced over the past several years are not fully reflected in the computation of the employers'

Pension System Funding (Continued)

contribution. At June 30, 2002 (the date of the most recent actuarial valuation), the pension system net assets at market value were significantly lower than the assets values used by the actuary in determining funding progress. We expect that the City's required employer contribution will increase in the coming years as a result of this situation and the fact that more people have retired recently.

Five Year Plan

In order to determine the cumulative impact the above items will have on the City, the City should update its five year plan. The plan will be a valuable tool to assess future fund balance levels. In addition, the plan should encompass alternative measures to ease the burden placed on the General Fund's operating millage to support City financed activities. Alternatively, the City will need to determine if they can continue to provide the same level of City services.

Federal Aid from August 2003 Blackout

The State has requested aid from the Federal Government for costs incurred by the State and local governments as a result of the August 2003 blackout. Specifically, emergency monies were requested to reimburse Michigan governmental units for overtime for public safety and transportation workers and other out-of-pocket costs associated with the blackout. We understand that you have recently identified your costs associated with the blackout in the event that the State is successful in receiving emergency funds from the Federal Government. It is expected that if emergency funds are received by the State, local units will be allowed to submit claims for consideration.

New Homestead Audit Program

Public Act. 105 of 2003 provides new authority for local units of government and the Michigan Department of Treasury to share homestead information to determine if a resident is illegally claiming an homestead exemption on property. As you recall, following the passage of Proposal A in 1994, individuals in Michigan are allowed only one homestead for property tax purposes. A residence which is not an individual's homestead pays property tax at the non-homestead rate. The Michigan Department of Treasury will publish additional guidance related to this new law.

Debt Service Funds

During testing of property tax revenue it was noted that the Water Bonds Debt Service Fund net asset balance is approximately \$800,000. The remaining debt payments to be made from this balance are approximately \$355,000, which is due during fiscal year 2004. It is our understanding that an additional levy was assessed for the 2003 tax year. Since this was a special tax levy, the excess funds must be handled appropriately. It is our understanding that Michigan State law indicates that excess monies collected may be used to service other unlimited tax general obligation debt. As of June 30, 2003, the City had other unlimited tax general obligation debt that they may be able to service with these excess funds. The City should discuss this matter with the City attorney and develop a plan for the use of excess monies collected.

Tax Collections

The Treasurer's Office failed to remit taxes collected subsequent to June 30, 2003 and related to the 2003 tax year on a timely basis due to computer system issues. As of the date of the audit, the system issue has been resolved and the Treasurer's Office is now distributing tax collections in a timely manner.

Enterprise Fund Activities

While reviewing the Water and Sewer Fund activity for the year, it was noted that the computer system would not allow for an accounts receivable sub-ledger to be regularly prepared. We understand that the City has recently received an upgrade to the computer system that will allow for Water and Sewer Fund accounts receivable aging reports to be prepared. We encourage the City to print these reports and reconcile them to the general ledger at least quarterly.

Customer payments received through the mail are currently opened directly by the Water Department. Payments are not stamped for City deposit until after the Water Department has posted them to the individual customer accounts. Payments are then sent to the Treasurer's Department for deposit. To improve internal controls, the City should have all customer payments received through the mail stamped for deposit prior to posting to customer's account and being sent to the Treasurer's office for deposit.

Downtown Development Authority and Economic Development Corporation

Throughout the year, the activity of the Downtown Development Authority (DDA) and the Economic Development Corporation (EDC) was not recorded in the City's general ledger in a timely manner. We recommend that activity relating to the Downtown Development Authority and the Economic Development Corporation be recorded

**Downtown Development Authority and Economic Development Corporation
(Continued)**

monthly. In addition, the DDA and EDC bank reconciliations were not prepared in a timely manner. These bank reconciliations should be prepared in the normal course of preparing all other City bank reconciliations. Without proper internal controls, errors or irregularities can occur and not be detected in a timely manner. To safeguard all assets and to ensure proper disclosure of all activity, these accounting records must be maintained.

Other Accounting Matters

We offer the following other suggestions and comments:

During the testing of expenditures for the Police and Fire Retirement System, it was noted that the City does not have the original documentation, or copies of documentation, to support the related disbursements. We understand that the record keeping function for the Police and Fire Retirement System is the responsibility of the City. As such, we recommend that documentation supporting related disbursements be submitted to the City.

We understand that the City has a policy in place regarding the use of credit cards. It came to our attention that credit cards are being used to cover operating expenditures relating to the Police and Fire Retirement System, however the policy adopted by the City does not currently apply to the Police and Fire Retirement System. The State of Michigan has passed laws that require municipalities to adopt formal policies relating to the use of credit cards. We recommend that the Police and Fire Retirement System adopt a policy for the use of credit cards similar to that of the City.

During the year, the City contracted with a new prescription company, ClaimsPro. Twice a month, ClaimsPro draws down funds to cover prescription expenses from the City's general checking account. As a precautionary measure, the City may want to consider using a separate cash account for ClaimsPro electronic funds activity, rather than giving the company access to the City's general checking account.

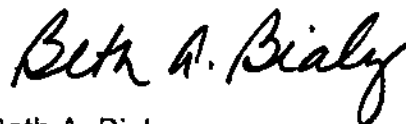
Municipal Finance Qualifying Statement

Please remember that the Municipal Finance Act (Act 34 of 2001) includes a requirement for the City to file an annual Municipal Finance Qualifying Statement by December 31st of each year. This form can be found on-line @ http://www.michigan.gov/treasury/0,1607,7-121-1751_8013---,00.html

We would like to express our thanks and appreciation for the courtesy and cooperation extended to us by the City staff during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

Yours truly,

PLANTE & MORAN, PLLC



Beth A. Bialy



Daniel Pendell